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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

EX PARTE

July 31, 1996

William F. Caton  
Secretary  
Federal Communications Commission  
1919 M Street, NW, Room 222  
Washington, DC 20554

**RE: Ex Parte Notice, CC Docket No. 96-112**

Dear Mr. Caton:

On July 30, 1996, United States Telephone Association representatives met with John Nakahata, of Chairman Hundt's office. The USTA group consisted of the undersigned, Sherry Herauf (Pac Tel), Maury Talbot (BellSouth), and Greg Sidak (AEI).

The topic of the meeting centered around the points discussed in Attachment A and Attachment B. An original and one copy of this ex parte notice are being filed. Please include a copy of this notice in the public record of this proceeding.

Respectfully submitted,

*Keith Townsend*

Keith Townsend  
Director  
Regulatory Affairs & Counsel

Attachments  
cc: Mary McDermott  
John Nakahata  
Sherry Herauf  
Maury Talbot  
Greg Sidak

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# USTA EX PARTE 96-112

- Telecommunications Act Encourages Development of Broadband Network and Promotes Competition
- Use of Broadband Facilities by Telcos for Nonregulated Services such as OVS Will be Impeded by:
  - Exogenous Change for Price Cap Companies
  - Over Allocation to Nonreg

# USTA EX PARTE 96-112

- For Consumer Prices to be Considered Just and Reasonable, Sound Economics Should be Followed:

- Maximize Welfare of Consumers of BOTH Video and Telephone Markets
- Cable Industry Proposals Will Harm Consumer Welfare as Well as Frustrate Universal Service Goals
- Price Caps with No Sharing is Sufficient to Prevent Cross Subsidy
- Current AND Potential Competition Protect Consumers from Cross Subsidy.

Leland Johnson Provided the Answer in 1994:

**“The threat of cross-subsidization is constrained because the pool of potential LEC monopoly revenues available to absorb cost shifting is shrinking.” “The threat of cross-subsidy is less today than previously, and it will continue to diminish.”** (Leland L. Johnson, Toward Competition in Cable Television, 80-81 MIT Press & AEI Press 1994)

- Ratepayers Already Share in the Economies of Scope

# USTA EX PARTE 96-112

- **Not all Broadband Services are Nonregulated**  
(video conferencing, video telephony, data services in excess of DS1, wireless transport, digital audio, etc.)
- **New Regulatory Burdens are Not Necessary**
  - Existing Part 64 Rules Allow for Flexibility of Technology
  - Rules can be Simplified Without a One-Size Fits All Allocator; Use Individual CAM Changes
  - Special Cost Pools are Not Needed for Spare Capacity

# Overview of Financial Regulation

## The Relationship of Accounting, Separations, Access Charge, Rate of Return, and Tariff Rules

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### Role:

**Part 32:** Establishes accounting practices, account structure, affiliate transaction rules.

**Part 64:** Rules for allocation of costs between nonregulated/regulated operations

**Part 36:** Jurisdictional separations procedures

**Part 69:** Defines access elements, apportionment of interstate costs to access elements, some rate parameters

**Part 65:** Rate of return procedures, rate base/net income (revenue requirement) rules

**Part 61:** Tariff filing requirements

